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by individuals, corporations, and non-subscribing banks for investment purposes, and for certificates used in later instalment payments, it still appears true that in effecting settlement for Liberty Loan subscriptions the banks of the country elected to make large use of "payment by credit" and to retain a substantial part of their certificate holdings as

TABLE VII

Liberty Loan	Loan-Anticipation Certificates Outstanding	Certificates Used in First Instalment Payment	Percentage
First...........	$ 868,205,000	$554,500,000	64
Second.........	2,320,495,000	469,000,000	20
Third..........	2,612,085,500	823,332,600	32

short-term investments. Of direct fiscal importance, the collateral effects of such procedure in relation to the money market and the expansion of credit have been of even greater significance. But an analysis of these consequences lies beyond the scope of the present note.

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WASHINGTON NOTES

NEW FINANCIAL NEEDS

National financial requirements have again been increased by the presentation of a deficiency appropriation bill calling for more than $8,000,000,000 for the use of the army and navy. This added to the $24,000,000,000 already required by the previous program makes a total of some $32,000,000,000, provision for which must be made during the current fiscal year. Out of this amount about four and a half billion dollars has already been obtained from the banks through preliminary sales of certificates of indebtedness. That amount must be reimbursed through the use of an equivalent amount drawn from the proceeds of the Fourth Liberty Loan. The proceeds of this loan are therefore practically used up, or will be so, before the work of getting in the actual results of subscriptions has been completed. Assuming that the war revenue bill when adopted will yield as much as $9,000,000,000—a very high estimate of its return, unless a new program of taxation should be added to that which is now carried in the bill—it would be necessary to obtain from loans at least $23,000,000,000 to meet the new requirements, of which the proceeds of the Fourth Liberty Loan would furnish say between $6,000,000,000 and $7,000,000,000. Cer-

tainly $16,000,000,000 more must therefore be secured either by other Liberty Loans or by taxation not now contemplated in the war revenue bill, prior to June 30, 1919.

The experience during the Fourth Liberty Loan has apparently tended to demonstrate that the available fluid or surplus wealth of the country in the hands of the bond-buying classes has been considerably decreased, or that it has been held in reserve because of the expected taxation which must be met by the community out of this year's income, or by a combination of both factors. Whatever may be the precise assignment of responsibility, the fact remains that the classes to which appeal has most directly been made are showing a proportionately lower ability to subscribe for bonds. This has naturally thrown upon the banks the necessity of sustaining or underwriting an increasing share of the loan as currently placed. Should present methods of finance be adhered to, further developments in the same direction would mean that the government's obligations would be continuously shifted to the banks in one form or another. Prior to the Fourth Loan the banks were the actual buyers of only small quantities of government bonds, but for some time past there has been an increasing tendency on the part of individuals to obtain discounts at the banks with bonds as security, so that the holdings of war paper have been very considerably increased.

The results of the Fourth Loan will undoubtedly burden the banks still further because of the very long commitments which many of them have incurred by undertaking to carry the borrowers up to a year on the basis of successive renewals designed for the purpose of enabling them to settle their obligations gradually. Undoubtedly a considerable number of individuals have "overbought," that is to say, have subscribed for quantities of bonds which cannot be paid for between the present date and the time when the next Liberty Loan will necessarily have to be offered in order to get the funds needed by the government. Such persons will necessarily be less active bond buyers in any subsequent loan campaign. The outcome of the Fourth Loan, therefore, not only indicates a greater reliance upon credit institutions and a less relative reliance upon saving, but also a considerable tendency to anticipate the future and to reduce the relative bond-subscribing capacity of the general mass of individuals. Two alternatives to continuing in the present policy are under current consideration—the one the extension of taxation to the lower grades of incomes, the other the adoption of some plan for more or less compulsory assignment of subscription quotas to individuals, either through the banks or otherwise.

A SUBSIDY TO GOLD

During the past month important developments have occurred in connection with a plan for altering the status of gold as a standard of value. For some time past the Federal Reserve Board has received from many quarters urgent applications for assistance in securing a form of governmental assistance to, or relief of, the gold-mining industry. It has been asserted that gold-mining is tending to decline in volume and that this condition is an outgrowth of the war situation, due to the fact that the cost of labor, materials, chemicals, and all essentials have greatly risen. The matter became acute some months ago when gold miners first applied to the Board and to the Treasury Department for recognition of their business as a "war industry." Later, application of the same kind was made to the War Industries Board, with the result that gold-mining has now been given a preferred status with regard to fuel, transportation, etc., thus placing it definitely in the position of a war industry. Meanwhile, mining representatives have brought to the attention of the Senate Finance Committee arguments in favor of exempting the business from taxation or of giving it at least a preferred status in that respect as well. The situation has appealed so strongly to some banking interests that they have indorsed a plan for obtaining an international agreement designed to bring about a higher price for gold in order that the production of the metal may be stimulated.

In effect the argument put forward on behalf of the scheme is that, due to the very greatly inflated credit systems of all countries, it is now practically essential to sustain them by providing a stronger gold base on which they may rest in order that the "inflation" which has resulted from the war may be decreased or terminated at the earliest possible moment. Economists especially interested in questions of money and prices have almost uniformly thus far taken the view that any such measure would be equivalent to a deterioration of the standard of value and that it must accordingly be classed as a renewel or revival of the former 16 to 1 "heresy." At the basis of the current discussion in congressional circles lies the assumption that the quantity of bank credit that can be granted by a country is fundamentally determined by the amount of gold that can be held in reserves; and that, if these reserves are larger, the credit-granting powers of the banks will be correspondingly expanded. In support of this view is cited the fact that ever since the opening of the war there has been a determined effort on the part of practically all belligerents to obtain and hold as much gold as possible, this on the ground that such gold was necessary in order to sustain the

structure of their banking credit. The view that the relation of gold to goods through prices is automatically determined on the basis of demand and supply and that any interference with this relationship tends to destroy the idea of a stable standard of value is practically discarded by those who advocate the theory of the increase of gold as necessary to the maintenance of solvent banking and industrial conditions. Prospects now, however, seem to favor at least the holding of an international conference, relative to the treatment of gold and credit, either incident to, or immediately after, the peace conference—whenever the latter may occur.

AMENDMENTS TO THE FEDERAL RESERVE ACT

The adoption of amendments to the Federal Reserve Act in a measure approved by the President on September 26, 1918, practically brings to a close, at least so far as important changes are concerned, the process of modifying and developing the Federal Reserve Act which has been in progress for the past four years. So unexpected have been the demands upon the reserve system and so unusual the conditions which it had to meet, that the underlying legislation has almost unavoidably been altered from time to time with comparatively little discussion, for the purpose of enabling the banking system to bear its part with success in carrying the country through the present period of difficulty. It may well be that after the return of peace the further modification of the act with a view to correcting and improving some of the innovations and changes hurriedly made in its structure under the stress of events will be undertaken. In the meantime, however, the Federal Reserve Board has announced its intent for the present to press no further recommendations for change.

The act of September 26 contains three important alterations as well as some minor ones. Of these three the first is a change in the method of electing directors of reserve banks. The old plan heretofore in vogue has proved itself unsatisfactory because of the faulty or defective grouping of the banks upon a rigid system uniform in all districts. To the Board itself is now given the power to group the member banks for the purpose of electing directors, this function being exercised for the first time during the current autumn. A second significant innovation carried by the new law lies in the modification of section 22 of the Federal Reserve Act so as to give a more reasonable interpretation of the restrictions upon directors in their relationships with the banks of whose boards they are members. The third feature, which by some will be considered the most important, provides for the

broadening of the power of the Federal Reserve Board to grant the national banks fiduciary powers. The Board is now allowed to make such grants whenever the laws of a state permit the exercise of such fiduciary powers by state banks or trust companies. This is in substance pursuant to the decision of the Supreme Court of the United States in the so-called Michigan case, the opinion which recognized the right of the Federal Reserve Board to make fiduciary grants under the act as originally provided and intended by Congress.

Among the minor changes made by the new bill is the readjustment of the denominations of currency which may be issued by Federal Reserve banks and the establishment of a criminal penalty for violations of the act or offenses committed under it—a point overlooked both in the original enactment and in the legislation which has followed and amended it. On the whole the changes conveyed by the measure of September 26, here under review, are desirable and beneficial, and their tendency will be to render the working of the act smoother and more certain.

Although the amendatory provisions had been under consideration in Congress for a great while prior to their final adoption, the opposition to them eventually disappeared, owing in some measure to a better understanding on the part of state banks of the exact significance of the changes made by the proposed legislation. An association of state institutions designed for the purpose of opposing the Federal Reserve System which had apparently been called into existence by the pendency of this legislation has thus far had no apparent influence.

CHANGES IN BANK INVESTMENT

One of the principal effects produced by the war on banking is proving to be that of a general alteration in the scope and character of bank investments. This tendency has become very much more marked during the past few months than it was prior to that time. The change is primarily due of course to the gross increase in the demands of the government for means with which to carry on the war, but there is also a group of incidental factors that is of very considerable importance. Many banks which have in the past had considerable amounts of funds available for use as a kind of secondary reserve, and have been in the habit of putting them into commercial paper, acceptances, and similar investment forms have now drifted into the practice of employing these funds in the purchase of Treasury certificates of indebtedness which pay about as well as other forms of available paper. To a very considerable extent they have of course been obliged to invest their funds in this way

as a result of Treasury requirements, but many banks have gone farther and have voluntarily purchased the certificates as a means of income. To this extent they have lowered the amount which they can put into commercial paper. One effect of this change of policy on their part has been that of reducing the scope and activity of the acceptance market.

The situation in this regard has been recognized during the past summer by the adoption in various quarters of a practice of lending at call against acceptances, the intention being to enable commercial paper brokers to purchase more freely by assisting them to get their funds out of the acceptances which they are carrying at any given time. This expedient, however, has not had more than a very limited success thus far, although under other conditions in the money market it may produce better results.

Another change in the portfolio of the banks is found in the fact that they are carrying so great an amount of what is called "war loan" paper consisting of the notes of their customers secured by bonds and certificates of indebtedness. The great increase of this type of paper is strikingly seen at the Federal Reserve banks, where its growth has assumed very large proportions. Much of it is, however, held by the member banks the country over. This paper is in a great many cases necessarily renewed from time to time, and in so far as it is thus renewed it constitutes a permanent tying up of the resources of the banks in what is practically a long-term investment. This constitutes a diminution in the "liquidity" of the various institutions.

The great increase in currency which has been frequently noted, the most striking element in which is an increase of about $2,300,000,000 in Federal Reserve notes from the opening of the Federal Reserve banks to the close of September, 1918, has been overstressed, since the establishment of a net figure (by deducting the gold and gold certificates which have been drawn into bank vaults) shows a much smaller increase, amounting to not much over $600,000,000. This great increase in currency has been paralleled by a much greater increase in bank deposits, those of the national banks alone rising from about $8,000,000,000 at the opening of the war to about $14,000,000,000 in June, 1918. The increase in currency is of even less importance as compared with the increase in bank deposits than it appears to be on the face of things, due to the fact that in the industrial sections of the country where wages have been high and prosperity great the practice of hoarding notes has enormously increased. This of course withdraws a very considerable amount of notes from actual circulation and to that extent deprives them of the effect which they would otherwise have produced.